



Easing Trade War to Pay Off

Petrochemical sector has underperformed TASI since the beginning of 2019, mainly due to weak price performance of all major petrochemical products, which translated into poor 1Q19 results for all petchem companies, with bottom line that missed consensus estimates by an average of 23 percent. The most extreme of the bunch was Kayan, which declared a loss of SAR 198mln versus consensus estimate of SAR 208mln net profit.

Trade war easing started paying off

At the G20 Summit in the end of June, US and China resumed trade talks, a move that signaled an ease in the trade war between the two countries. US promised not to impose any new tariffs on Chinese exports, while China agreed to continue purchasing American goods. After a steady drop in all petchem products since the start of the financial year, the prices of these products witnessed a slight hike in the beginning of July, and this was no coincidence.

Emerging Market inclusion

SABIC, Yansab, and Kayan are all main beneficiaries from the FTSE and MSCI Emerging Market Indices. Foreign ownership in the three companies increased by 635%, 216%, and 246% respectively. This factor undoubtedly supported the stock price against the effect of the sharp decrease in petchem prices.

Kayan debt reduction measures

Saudi Kayan adopted debt reduction measures by repaying and restructuring its outstanding secondary debts with the aim to enhance financial competency. This includes early payments of SAR 1.125bln loan to Samba Financial Group and SAR 2bln loan to Banque Saudi Fransi using the company's available cash, as well as the restructuring of secondary debts using a Murabaha facility the company acquired from NCB. The move is expected to have a positive financial impact of SAR 71mln in 2H19 and SAR 230mln in FY2020.

SABIC raises stake in Ar-Razi to 75%

SABIC renewed its partnership in the Saudi Methanol Company (Ar-Razi) for another 20 years by signing an agreement with the Japan Saudi Arabia Methanol Company (JSMA). With that, SABIC raised its stake in Ar-Razi to 75 percent. JSMA will be paying SABIC c. SAR 5bln, which will be used to refurbish Ar-Razi's current methanol plants and/or establish new ones. Financial impact of the agreement is expected to be witnessed in FY2020 when the transaction is finalized.

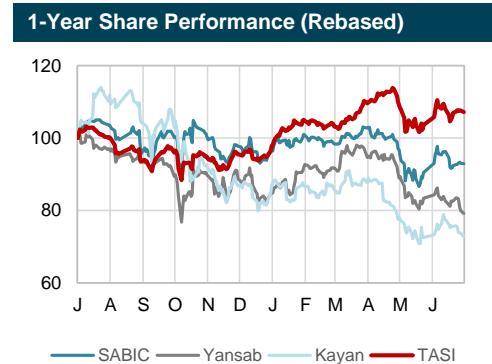
Rating Summary			
SAR	Last Close	Rating	Target Price
SABIC 2010	114.40	Hold	121
Yansab 2290	59.70	Hold	58
Kayan 2350	11.48	Hold	12

EPS (Attributable)			
SAR	2Q19E	2Q18	Y/Y Chg
SABIC	1.28	2.23	(43%)
Yansab	0.76	1.46	(48%)
Kayan	0.01	0.59	(98%)

Valuation			
P / E	2018	2019E	2020E
SABIC	15.9x	18.7x	19.8x
Yansab	16.1x	27.3x	32.5x
Kayan	11.0x	18.5x	19.4x

EBITDA Margins			
	2018	2019E	2020E
SABIC	31%	30%	30%
Yansab	45%	39%	33%
Kayan	40%	37%	36%

Source: SFC



2Q19 FORECAST

SAR mln	Revenues			Gross Margin		Operating Income			Net Income		
	2Q19E	2Q18	Y/Y Chg	2Q19E	2Q18	2Q19E	2Q18	Y/Y Chg	2Q19E	2Q18	Y/Y Chg
SABIC	38,550	43,285	(11%)	31%	37%	6,522	10,826	(40%)	3,829	6,695	(43%)
Yansab	1,650	2,111	(22%)	31%	44%	424	816	(48%)	428	821	(48%)
Kayan	2,740	3,524	(22%)	16%	37%	274	1,117	(75%)	18	879	(98%)
Group	42,940	48,920	(12%)	31%	37%	7,220	12,759	(43%)	4,276	8,395	(49%)

Source: Company Reports, SFC

Source: Bloomberg

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Rating Framework

BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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